

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN ADJUSTMENT OF RATES OF DELTA)
NATURAL GAS COMPANY, INC.) CASE NO. 9331

O R D E R

IT IS ORDERED that Delta Natural Gas Company, Inc., ("Delta") shall file an original and 12 copies of the following information with this Commission, with a copy to all parties of record, by August 23, 1985, or within 2 weeks after the date of this Order, whichever is later. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to insure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately. If neither the requested

information nor a motion for an extension of time is filed by the stated date, the case may be dismissed.

1. In reference to the schedule attached as a response to Item No. 1 of the Commission's second Information Request, Delta did not provide a breakdown of steel pipe into coated and uncoated steel pipe. Please provide this information. If this information is estimated or unknown, please provide the vintage and dollar amount of all steel pipe additions.

2. If the 3 percent depreciation rate utilized for Transmission Mains and Distribution Mains is a composite rate of depreciation, please provide the method and underlying facts and assumptions as to how the 3 percent depreciation rate was determined.

3. Does Delta believe that coated steel and plastic pipe generally have longer useful lives than uncoated steel pipe? If not, please provide Delta's reasoning to include underlying facts and assumptions.

4. In its response to Item No. 2 of the Commission's Second Request, Delta did not specifically address why the \$171,523 adjustment to wages and salaries does not violate the concepts of the historic test period and the matching of revenues, expenses and rate base. Please provide a response to this issue.

5. In reference to the response to Item No. 3 of the Commission's Second Request, Delta stated that normal attrition was reflected in the methodology utilized to make the \$91,454 wage annualization adjustment. In a review of Delta's response to Item

No. 16 of the Commission's First Request, the Commission saw no identifiable amount or calculation for normal attrition. Please provide a more complete response to Item No. 3 of the Commission's Second Data Request by providing at test-period end wage rates:

a. The amount of annualized wages and salaries at the lowest level of employees during the test period.

b. The amount of annualized wages and salaries at the highest level of employees during the test period.

In the alternative, Delta may provide at test-period end wage rates monthly wages and salaries for those job positions actually filled during each respective month.

6. In its response to Item No. 6 of the Commission's Second Request, Delta stated that the \$20,000 credit balance existing in April 1983 was the result of reconciling subsidiary records with control accounts. Usually, as part of the internal accounting control, reconciliation occurs on a scheduled basis. Has Delta reconciled its subsidiary records to this control account for the test period? If so, please provide all adjusting entries made to Account No. 9032 as a result of this reconciliation. Please provide a description of the entry, the dates of occurrence of the underlying transactions, and the dollar amount. Please also provide the adjusting entry which produced the \$20,000 credit balance in April, 1983.

7. Delta's response to Item No. 7 of the Commission's Second Data Request stated that it is self-insured in regard to medical coverage. Furthermore, Delta explained that the amounts

charged to Account No. 9264 would fluctuate yearly, depending on claims submitted. Generally, the Commission seeks to determine the normalized level of an expense for rate-making purposes. Please provide the annual charge to Account No. 9264 for the fiscal years of 1980 through 1984. Please also provide any support for including the test-year actual costs in Account No. 924 for rate-making purposes rather than a normalized amount.

8. Has Delta conducted or commissioned an actuarial analysis of the expected cost of self-insurance? If so, please provide a copy of these results.

9. The response to Item No. 9 of the Commission's Second Request states that Delta was unable to complete its right-of-way clearing program in the previous year; resultingly, the expense for that year was abnormally low. This statement also implies that the test-period right-of-way clearing cost may be abnormally high, due to the carryover of the prior periods uncompleted right-of-way program. Did the previous years right-of-way program carryover to the test period? If so, please provide the dollar amounts expensed during the test period for right-of-way clearing originally scheduled for the prior period. Please also provide any support for including the test-year actual right-of-way clearing costs rather than a normalized amount for rate-making purposes.

10. The response to Item No. 11 of the Commission's Second Data Request stated that a \$15,000 credit entry was recorded in April 1983 to capitalize certain charges erroneously recorded as

an expense. Please provide a breakdown of the amounts charged to Meters and Regulator Other, Account No. 9832. This breakdown should include a description of the item purchased, the date purchased, and the dollar amount. Like items individually costing \$250 or less may be grouped together with analogous information. Please provide copies of invoices for individual items costing \$1,000 or more.

11. Has Delta adopted any accounting policy changes or accounting procedure changes to insure that capitalizable items have not been expensed during the test period? Please provide documentation of these changes such as a copy of the appropriate sections of the accounting procedure manual. Provide copies of workpapers and audit program utilized in a review of Account No. 9832.

12. The response to Item No. 12 of the Commission's Second Data Request included letters from Richard F. McCready and Co., and the Crum Company, dated May 30, 1985, and July 17, 1985, respectively. However, the dates of expenditures for insurance coverage, as indicated by Delta's response on page 7 to Item No. 16 of the Commission's First Request, were March 9, 1985, and May 1, 1985. Please provide documentation of quotes or attempts to obtain quotes before the effective dates of March 9, 1985, and May 1, 1985, respectively.

Please also provide a narrative describing the insurance procurement practices of Delta to include attention to the following items:

- a. Dollar amount;
- b. Number of bids sought;
- c. Recurring purchases;
- d. Non-recurring purchases;
- e. Vendor review;
- f. Scheduling of review;
- g. Quality standards and evaluation;
- h. Control over related party purchases, and
- i. Authorization.

13. If procurement policies and procedures for other goods and services are not consistent with those outlined in response to Question No. 12, provide complete details of policies and procedures for other goods and services.

Done at Frankfort, Kentucky, this 14th day of August, 1985.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:

Secretary